annual report
2007

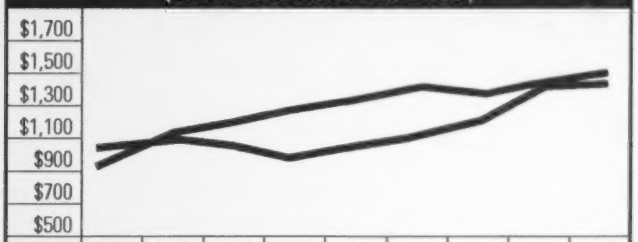
special forces
pension plan

table of contents

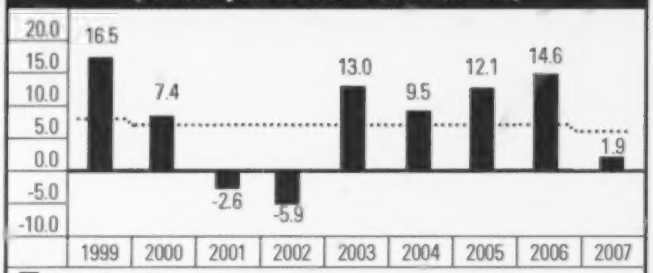
highlights	1
2007 special forces pension board	2
message from the board	2
management of the SFPP	6
administration report	7
investment report	10
financial statements	21
2008 directory	50
contact information	50
SFPP employers	50
10-year plan summary	51

highlights

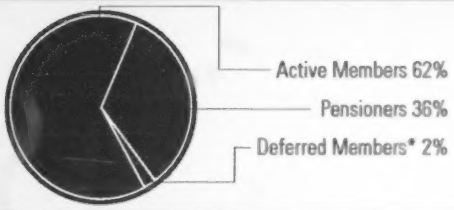
Net Assets vs. Pension Liabilities
($ millions)
(as at December 31, 2007)



Rates of Return (%)
(for the year ended December 31)

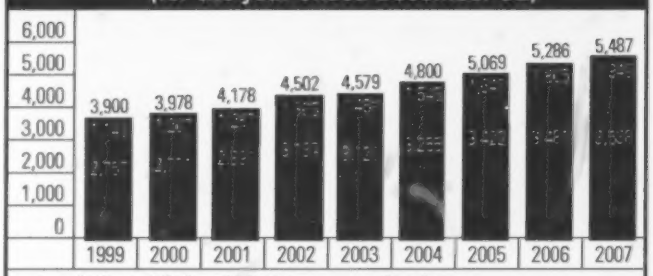


Membership Profile
(as at December 31, 2007)



* Members who are no longer employed by a Plan employer, have left contributions in the Plan and have yet to choose a pension option.

Total Members and Pensioners
(for the year ended December 31)

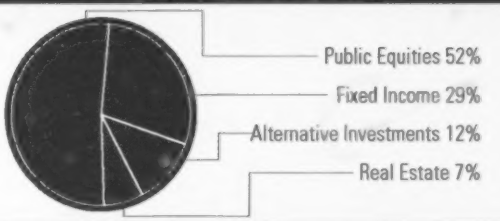


Summary of Net Assets Available for Benefits and Accrued Benefits
(as at December 31, 2007)

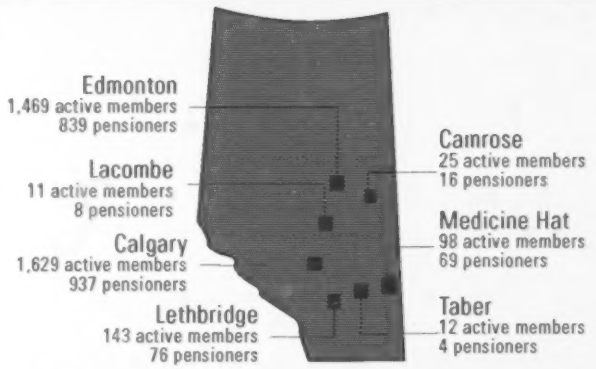
	2007	2006
	($ thousands)	
Net Assets Available for Benefits	1,478,536	1,467,260
Actuarial Value of Accrued Benefits		
Plan Fund	1,543,522	1,424,137
Indexing Fund	13,665	9,849
	1,557,187	1,433,986
Surplus (Deficiency)		
Plan Fund	(78,651)	33,274
Indexing Fund*	-	-
	(78,651)	33,274

* Cost of Living Adjustment (COLA) has been granted for pensionable service up to December 31, 2000. Please see www.sfpp.ca for more details.

2007 Asset Mix Policy



SFPP Members and Pensioners by Location*



* Does not include members retaining active plan status who are not currently active with any employer.

2007 special forces pension board

Back row (left to right): **Colin Catorio (Employee Nominee) Lethbridge Regional Police Association, Alex Fowlie (Crown Nominee), Graeme Ramsay (Employee Nominee) Calgary Police Association, Garth Sherwin (Employer Nominee) City of Lethbridge**

Front row (left to right): **Liz Doughty (Board Secretary) APA Corporation, David Watson (Employer Nominee/Chair), City of Calgary, Denis Jubinville (EmployeeNominee/Vice-Chair), Edmonton Police Association**

Missing from photo: **Roger Rosychuk (Employer Nominee) City of Edmonton**

message from the board

The Special Forces Pension (SFP) Board is pleased to provide this Annual Report on the operation and financial results of the Special Forces Pension Plan (SFPP) for 2007. A summary of this report—the *SFPP Annual Report Highlights 2007*—is mailed directly to members and pensioners.

The SFP Board reviews the management of the Plan's operations and ensures the pension fund assets are managed effectively and efficiently to provide secure pension income for Plan beneficiaries. During 2007, the SFP Board's initiatives included:

- monitoring investment strategy and Plan funding,
- reviewing the results of the Plan's actuarial valuation,
- consulting with stakeholders on alternative approaches to funding Cost-of-Living Adjustments (COLA) to pensions being paid,
- exploring methods to mitigate investment risks, and
- working with Alberta Finance and Enterprise to enhance governance structure and processes.

investment results

The SFPP Fund continued to have positive returns for the fifth year in a row, ending 2007 with an annual return of 1.9 per cent. Although this fund result exceeded the benchmark by 81 basis points (with one basis point equal to 1/100th of a per cent), it was well below the high returns of the previous four years. 2007 has been a challenging year for markets that suffered economic disruptions due to factors such as delinquencies in sub prime loans, a weakening U.S. housing market and a slowing U.S. economy.

Average Annualized Rates of Return (ending December 31, 2007)				
Actual Returns	1 year	2 years	4 years	8 years
	1.9%	8.1%	9.4%	6.0%

Our investment manager, Alberta Investment Management (AIM), continues to add value. The Plan's net assets increased to $1.479 billion, up $12 million from $1.467 billion the previous year. The Investment Report section of this report provides more detailed information on the 2007 investment performance of the SFPP Fund.

funding status

In 2007, the SFP Board reviewed the actuarial valuation of the Plan as at December 31, 2006. As part of this process, the Board undertook a detailed and extensive review of the valuation assumptions to ensure that they reflect an appropriate view of the Plan's expected experience and the future investment environment.

Contribution rates will remain at 10.01 per cent for members and 11.11 per cent for employers for 2008. The Government of Alberta continues to contribute 1.25 per cent towards the pre-1992 unfunded liability. The next valuation is required on or before December 31, 2009.

The volatility of capital markets can cause abrupt changes in the plan's funded status from year to year. In order to keep contribution rates relatively stable through periods of market fluctuations, an asset-smoothing strategy is used which recognizes gains and losses over a three-year period. This means that the lower returns in 2007 will be averaged with the higher returns of the last two years to reduce the immediate impact on the contribution rates. According to an extrapolation by the actuary based on the assumptions and methods used in the December 31, 2006 valuation, the actuarial value of the Fund's assets in 2007 grew to $1.440 billion from $1.363 billion in 2006. The Plan's total liability as of December 31, 2007 was estimated at $1.543 billion (2006 $1.424 billion).

Actuarial Value of Assets vs Actuarial Liabilities ($ millions)	December 31, 2007			December 31, 2006		
	Pre-92 Service	Post-91 Service	Total Service	Pre-92 Service	Post-91 Service	Total Service
Market Value of Net Assets*	728	737	1,465	762	696	1,458
Asset Fluctuation reserve*	(14)	(11)	(25)	(53)	(42)	(95)
Actuarial Value of Net Assets*	714	726	1,440	709	654	1,363
Estimated Actuarial Liabilities*	814	729	1,543	787	637	1,424
Surplus/Deficiency	**(100)**	**(3)**	**(103)**	**(78)**	**17**	**(61)**
Funded Ratio	87.7%	99.6%	93.3%	90.2%	102.7%	95.8%

* Does not include separate indexing fund.

investment policy

The *Statement of Investment Policies and Goals* (*SIP&G*) describes the philosophy of the SFP Board and the investment objectives of the Fund. The Board reviews and adjusts the *SIP&G* regularly to ensure it continues to reflect an appropriate targeted return and prudent level of risk.

The SFP Board also regularly reviews industry trends with the view of improving its approach to managing investment risk. In 2007, the Board considered a number of techniques and processes which it will further consider in the 2008 *SIP&G* review. Among the risk management considerations are:

- developing a risk budgeting framework that will help the Board monitor the risk of various components of the investment portfolio relative to pension liabilities, and
- reviewing the Fund's exposure to asset classes that have the potential to enhance portfolio diversification, thus maximizing expected returns for a given amount of risk.

cost-of-living adjustment (COLA)

COLA is an increase to the basic pension paid after retirement to help protect the pension income from the eroding effects of inflation. The Board is responsible for setting the contribution rate to the Indexing Fund, which is used to fund the COLA benefit.

The SFP Plan provides a guaranteed annual COLA equal to 60 per cent of the Alberta Consumer Price Index (ACPI) on the portion of the pension for service before 1992, and ad hoc COLAs, depending on the ability of the Indexing Fund to pay, on the portion of the pension for service after 1991.

A separate COLA funding account called the *Indexing Fund* has been set up for total contributions of 1.5 per cent of salary, shared equally by employees and employers. This Fund can also receive any post-1991 surplus. The 2006 valuation indicated that the contributions to the Indexing Fund are sufficient to provide COLAs of 60 per cent of ACPI on pre-2001 service and 30 per cent of ACPI on post-2000 service. This fell short of the Board's long term goal to provide a 60 per cent COLA for all service.

In June 2007 the Board commissioned a report that reviewed all alternatives for COLA funding and an assessment of their impact on the Plan and its members. In November 2007, the Board held an information and discussion session to present the report to stakeholders and receive their feedback on the funding alternatives. The Board is reviewing the feedback in the first part of 2008.

plan governance

Governance is a central priority for the Board as it continues to strengthen its internal and external processes and policies.

In 2007, the Board developed and implemented a comprehensive plan to consult with stakeholders and collect regular feedback on key issues. The November 2007 stakeholder consultation session on COLA was the first initiative under this plan, and we anticipate that similar consultations will continue in the future.

Board members participate in regular and ongoing education and development sessions to obtain and maintain the high level of skills needed to satisfy their fiduciary obligations under the Plan. The Board also conducts an annual self assessment and a formal review of external providers. In 2008, these measures will continue to help strengthen and enhance our governance processes, identify opportunities to improve operations and procedures, and ensure that the Fund is well-positioned to meet future obligations.

In a broader context, Alberta Finance and Enterprise is working with public sector pension boards to strengthen the overall governance of Alberta's public sector pension plans. Phase one of this process focused on developing clear documentation of the accountabilities of all parties involved in the design, funding, investment and administration of the plans.

In 2008, the Board will continue to work with Alberta Finance and Enterprise to review the stakeholder input process, makeup of the boards, and the board member appointment process. Phase two of the governance review will look at facilitating stakeholder input into Plan design and governance. The results of this review are expected by the end of 2008.

In 2007, our two key partner organizations, Alberta Pensions Administration Corporation (APA) and AIM, made organizational changes that are expected to improve their services to SFPP.

board communication

The Board communicates with its stakeholders on an ongoing basis through the Annual Report's Message from the Board, and the Annual Report Highlights. The Board also participates in stakeholder conferences when requested, and arranges for face-to-face meetings with stakeholder groups where appropriate.

To promote awareness and understanding about its activities, the Board uses the SFPP website (www.sfpp.ca) to post such items as the SFPB Business Plan, the Actuarial Valuation used for funding purposes, and the Plan's *SIP&G*. The Annual Reports and Highlights are also available online.

acknowledgements

We wish to thank outgoing Board member Colin Catonio for his 10 dedicated years of service to the Board and welcome new member Dwayne Smith.

The Board would also like to thank the staff of AIM and APA for their investment management and administration services on behalf of the Plan, and Liz Doughty for her support of the day-to-day operation of the Board.

management of the SFPP

The rules governing the SFPP are found in the *Public Sector Pension Plans Act* and regulations. The Minister of Finance and Enterprise holds the assets of the Plan in trust and is responsible in legislation for the administration of the Plan and the investment management of its assets.

The Board has seven members (three employer nominees, three employee nominees and one person nominated by the Government of Alberta) that are appointed by the Lieutenant Governor in Council. The Board is charged with a number of legislated responsibilities, including: arranging actuarial valuations, recommending plan rule changes, setting contribution rates based on the actuary's recommendations, setting contribution rates to the Indexing Fund for post-1991 Cost-of-Living Adjustments (COLA), providing general guidelines on Plan administration, and setting investment policy for the Plan's assets.

The Minister of Finance and Enterprise has delegated the administration of the Plan to APA, which is a provincial Crown corporation governed by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. The Corporation provides services to members, pensioners and employers and is responsible for the day-to-day administration of the SFPP.

AIM manages and invests the assets on behalf of the Minister of Finance and Enterprise and the Board.

The Auditor General of Alberta conducts an independent audit of the financial statements of the SFPP to ensure they are presented fairly in all material aspects and that they are in accordance with Canadian generally accepted accounting principles. The Auditor General's office provides a report to the Board identifying any significant findings arising from the audit and other matters they believe should be brought to the Board's attention.

The Board also seeks expert advice in order to make fully informed decisions. To ensure the appropriate and adequate discharge of its legislated and fiduciary duties, the Board requests its administrator to enter into contracts on its behalf for both actuarial and investment consulting services.

administration report

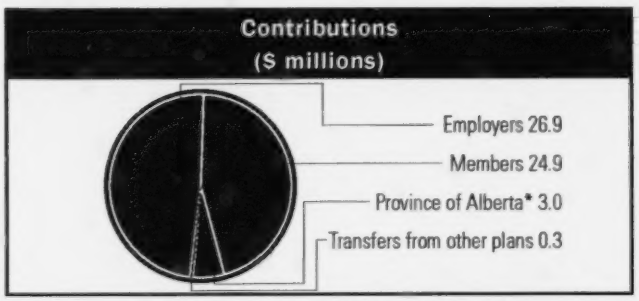
Alberta Pensions Administration Corporation (APA) administers the SFPP under an Administrative Services Agreement with the Minister of Finance and Enterprise. APA's administrative activities include the collection of member data and contributions, calculation and payment of pension benefits, maintenance of membership records, provision of support to the SFP Board, and communication of pension information to members, pensioners and employers.

The 2007 results in these areas are as follows:

Active Membership and Contributions

Active membership in the SFPP increased by 1.1 per cent in 2007, rising to 3,427 at December 31, 2007 from 3,389 at the end of 2006. As a result of increased membership and salaries, total contributions received from employers and employees, transfers from other plans, and the Province of Alberta* grew by 5.2 per cent to $55.1 million in 2007 from $52.4 million in 2006.

*Relates to additional contributions toward the unfunded liability for service prior to December 31, 1991.



* Relates to additional contributions toward the unfunded liability for service prior to December 31, 1991.

SFPP Membership

	2007	2006
Active Members	3,427	3,389
Deferred Members	111	92
Pensioners	1,949	1,805

Pensioners and Benefit Payments

The number of former employees and their spouses receiving a pension from the SFPP increased by 8.0 per cent, rising to 1,949 in 2007 from 1,805 in 2006. During the year, the total payments of benefits to pensioners rose by 11.9 per cent to $65.7 million in 2007 from $58.7 million in 2006.

SFPP Pensioner Profile

	2007	2006
Number of new pensioners	154	163
Average service (years)	28.03	27.39
Average age	52.22	51.56
Average pension	$3,628.74	$3,490.51

Monthly Payment Distribution As at December 31, 2007

Dollar Value ($) Per Month	Member Pensions	Spouse's Pensions	TOTAL
1 to 999	39	1	40
1,000 to 1,999	272	22	294
2,000 to 2,999	774	7	781
3,000 to 3,999	679	-	679
4,000 and over	155	-	155
TOTAL	1,919	30	1,949

Cost-of-Living Adjustment (COLA) to Pensions

The COLA for pensioners who retired before January 1, 2007 is 2.94 per cent. SFPP COLA applies only to service accrued before January 1, 2001. For post-1991 service, the Board is responsible for setting cost-of-living adjustments based on funds available in the Indexing Fund.

Terminated and Deferred Members
Termination benefits amounting to $5.5 million (2006: $4.4 million) were paid during the year to or on behalf of former members of SFPP.

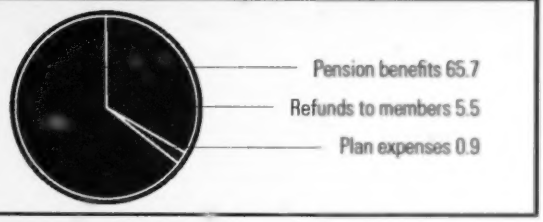
Plan Expenses
APA aims to provide services in an efficient and cost-effective manner. SFPP per member costs are based on a cost-sharing formula, which allocates APA's operating costs among the pension plans administered according to a formula determined by the Minister of Finance and Enterprise.

SFPP's share of APA costs was $0.93 million ($173 per member) in 2007, compared to $1.01 million ($195 per member) in 2006, based on average membership. This decrease is mainly attributed to a smaller than anticipated number of APA employees in 2007 than the previous year.

SFPP Expenses ($ thousands)

	2007	2006
APA Corporate Operating Costs	$644	$790
Board and Plan-specific Costs	290	219
Total Plan Operating Costs	$934	$1,009

Payments ($ millions)



Plan Communications
SFPP members and employers were provided with a number of tools in 2007 that make it easier for them to understand, manage and access information about their pensions.

SFPP members were provided with annual report highlights and member statements which included an updated users' guide, were given the opportunity to attend information seminars, and were sent welcome packages if they were new to the plan.

SFPP employers were sent the SFPP Annual Report and the monthly electronic employer newsletter, *Pension e-news*, which continued to give them up-to-date and easy access to pension information. *Pension e-guide*, the electronic manual for employers, was launched in its entirety in 2007, providing employers a consistent, online information source for administration issues.

Visits to the SFPP website (www.sfpp.ca) continued to increase in 2007. Just over 10,800 hits were made on the site in 2007, compared to about 8,600 hits in 2006. Members continued to take advantage of the pension estimator function and access their personal pension information through the secure **mypensionplan** site.

initiatives in 2007

Important changes in 2007 included:

- ***Call Centre Improvement Project***. This project involved training and technological improvements designed to better position the Member Service Centre to respond to the anticipated increase in pension inquiries in the future.
- ***Deferred member statements.*** Members who had left their employer but had chosen to leave their pension with SFPP were issued annual statements for the first time in 2007.
- ***Corporate reorganization and strategic planning.*** In order to effectively manage the anticipated growth in pensioner numbers (due to the retirement of the baby boom generation) a long-term view of operations was developed, which translated into a reorganization within APA. A *Five-year Strategic Plan* was also developed to enable better use of available technology and employee expertise to deliver proactive, responsive, and client-focused service to members, employers and plan governors now and into the future.

the year ahead

In 2008, APA plans to:

- Annually review three of SFPP's member and employer products and related forms to streamline information.
- Address the anticipated volume in pension inquiries by enhancing internet-enabled self-service.
- Ensure service levels for members, employers and pensioners meet or exceed expectations.
- Implement service level agreements with SFPP plan governors.

Please refer to www.apaco.ab.ca for additional information on the Alberta Pensions Administration Corporation's activities.

investment report

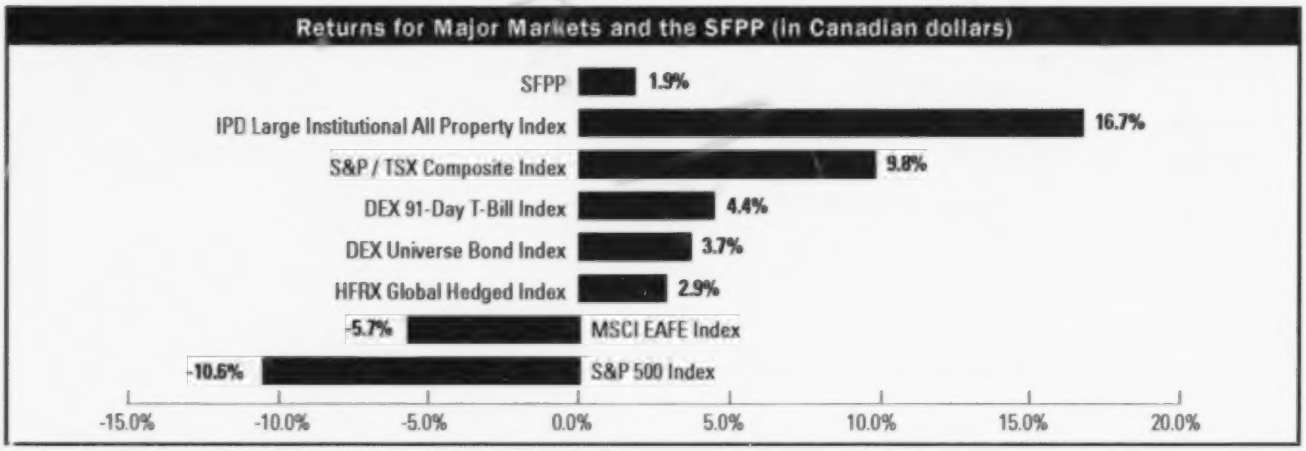
2007 year in review

Overall, the Plan earned a return on its investments of 1.9 per cent (or $28 million) in 2007, net of expenses, compared to 14.6 per cent (or $188 million) in 2006.

In general, markets were down compared to the previous year. A significant decline in the U.S. housing market in 2007 and credit concerns with sub-prime mortgages and asset backed commercial paper (ABCP) led to a credit and liquidity crisis which subsequently caused a softening in world equity markets. This affected the value of financial institutions holding these types of investments and the liquidity of other structured investment vehicles. The Plan has a small exposure to structured investment vehicles, nominal exposure to non-bank sponsored ABCP and no direct exposure to U.S. subprime mortgages. However, the Plan has indirect exposure to the sub-prime situation to the extent the Plan holds other investments such as stocks held in publicly traded financial institutions through its U.S., Canadian and non-North American equity portfolios which in turn may hold sub-prime mortgages. The Plan has a well diversified investment portfolio and long-term investment focus which is designed to minimize its exposure to any one type of investment. The stronger Canadian dollar in relation to other world currencies also had a negative impact on the value of non-Canadian investments.

Canadian real estate and Canadian equities had the best returns in 2007. However, these gains were offset by negative returns from investments in U.S. equities and non-North American equities which were impacted by the appreciating Canadian dollar and a weakening U.S. economy.

The following chart summarizes the market returns from various indices around the world and the return of SFPP.



The Canadian real estate market, represented by the IPD Large Institutional All Property Index, increased by 16.7 per cent, down from 18.6 per cent last year.

In the Canadian stock market, the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index increased by 9.8 per cent in 2007, down from 17.3 per cent in 2006, 24.1 per cent in 2005 and 14.5 per cent in 2004.

The value of the Plan's non-Canadian investment portfolio is exposed to foreign currency risk. For example, for every one cent change in the U.S. dollar against the Canadian dollar the fair value of the Plan's U.S. equity portfolio, totaling $263 million, changes by approximately $2.6 million. In September 2007 the Canadian dollar reached parity with the U.S. dollar. By year's end, one U.S. dollar purchased 99 cents Canadian, compared to $1.17 Canadian at December 31, 2006. As a result of the stronger Canadian dollar, U.S. dollar investments declined in value over the year when translated into Canadian dollars. Investment returns from U.S. equities were negative over the year when translated into Canadian dollars.

The S&P 500 Index, which tracks the performance of the top 500 American companies, increased by 5.5 per cent in U.S. dollars in 2007 compared to 15.8 per cent in 2006 and 4.9 per cent in 2005. When translated into Canadian dollars, the Index returned a negative 10.6 per cent in 2007 compared to positive 15.7 per cent in 2006 and 1.6 per cent in 2005.

Outside of North America, the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE), which measures the performance of approximately 1,200 companies on 21 stock exchanges around the world, returned 3.6 per cent in local currency. When translated into Canadian dollars, the MSCI EAFE Index decreased by 5.7 per cent in 2007 compared to an increase of 26.3 per cent in 2006 and 10.0 per cent in 2005.

The bond market represented by the DEX Universe Bond Index posted a return of 3.7 per cent in 2007 compared to 4.1 per cent in 2006 and 6.5 per cent in 2005.

statement of investment policies and goals (SIP&G)

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the Board's *SIP&G*. The *SIP&G* is reviewed and updated annually by the Board. It sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics and financial obligations and the Board's capital market expectations. It also defines the management structure and monitoring procedures.

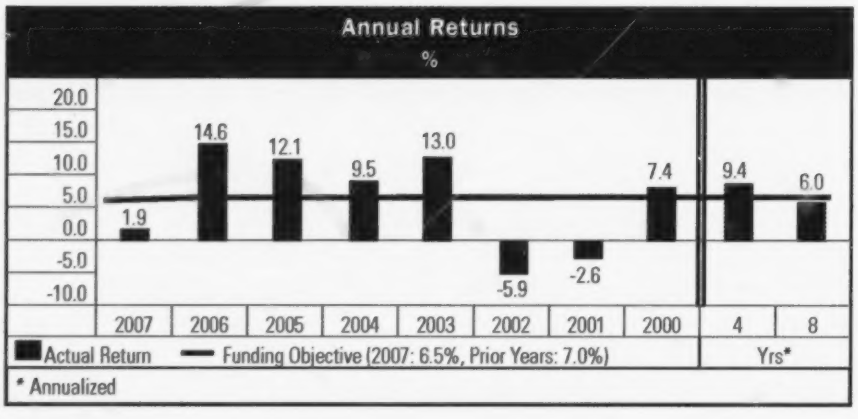
investment management services

AIM is the investment operation of Alberta Finance and Enterprise which manages and invests the assets of the Plan on behalf of the Minister of Finance and Enterprise and the Board. AIM invests SFPP's assets for the benefit of its members, subject to legislation and the investment policies recommended by the Board. AIM manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIM. On January 1, 2008, the investment operation of the Department of Finance and Enterprise of the Government of Alberta was transferred to the newly created Alberta Investment Management Corporation (AIMCo), which will continue to provide investment management services to SFPP.

long-term investment objective

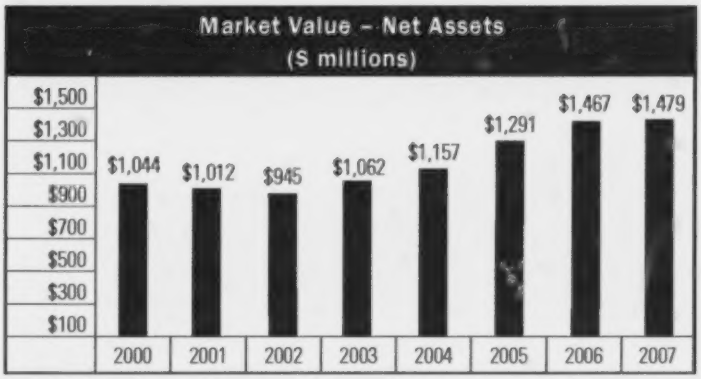
The expected long-term average annual return from the Plan's investments is 6.5 per cent. This includes an expectation of earning 4.0 per cent above the forecast annual rate of inflation currently assumed at 2.5 per cent.

The chart below compares the SFPP's overall investment returns over one year, four years and eight years against the required long-term investment return of 6.5 per cent. In five of the last eight years, the Plan's annual return exceeded the required long-term expected investment return. Over eight years, the Plan's annualized return of 6.0 per cent was less than the long-term expected return of 6.5 per cent by 0.5 per cent.



fair value of plan's net assets

At December 31, 2007, the fair value of the Plan's net assets increased to $1.479 billion, up $12 million from $1.467 billion the previous year after taking into account investment income of $28 million and the excess pension benefits paid over contributions received from employees and employers of $16 million.



board activities

The Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the *SIP&G* annually, the Board evaluates the investment management structure periodically and monitors the performance of the investment portfolio and compliance with policies quarterly. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors and reviewing published industry research.

The Board monitors the services provided to the Plan by AIM. Services provided and charges for those services including performance standards are set out in the Operating Protocol between AIM and the Board.

The Board conducts detailed asset-liability modeling studies to identify the best asset mix for the Plan taking into account the nature of the Plan's benefit structure, financial assets and the most up-to-date expectations for the financial markets. The Board then reviews the fund objectives, taking into consideration the studies' recommendations, and will make any appropriate changes to the *SIP&G*.

asset mix

For 2007, the policy asset mix attributed to public equities is 52 per cent, fixed income securities 29 per cent, real estate 7 per cent and alternative investments 12 per cent.

The Plan's alternative investment portfolio includes private income, private equities and timberland investments. They are relatively illiquid asset classes, and require time to build and exit investments. Both private income and timberland investments are structured to provide high current income. Private equity investments are new in 2007. They include primarily buyout investments. Buyout investments include expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions. Private income investments include infrastructure projects that are structured to provide high current income. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power/energy (e.g. contracted power generation, power transmission and pipelines) and utilities (e.g. water, waste water and natural gas network). The timberland investment includes an interest in a limited partnership that holds forestry land and land held for better use in the Province of British Columbia and a smaller investment outside Canada.

The table below shows the long-term policy asset mix for the Plan compared to the actual policy asset mix for 2007 and the previous year.

	Long-term Policy Asset Mix		Actual Asset Mix	
	2007	2006	2007	2006
	%	%	%	%
Fixed Income				
Short-term Investments	1.0	1.0	0.8	1.1
Bonds and Mortgages	12.0	14.0	22.0	23.8
Long Government Bonds	14.0	14.0	10.7	7.3
Real Return Bonds	2.0	2.0	2.0	1.6
Total Fixed Income	29.0	31.0	35.5	33.8
Equities				
Public Equities				
Canadian	17.0	18.0	18.2	16.8
United States	17.5	18.0	17.6	20.8
Non-North American	17.5	18.0	18.4	20.1
	52.0	54.0	54.2	57.7
Real Estate	7.0	7.0	7.6	7.0
Alternative Investments				
Private Income	5.0	3.0	1.6	1.1
Timberland	2.0	2.0	0.5	0.4
Private Equities	5.0	3.0	0.6	0.0
	12.0	8.0	2.7	1.5
Total Equities	**71.0**	**69.0**	**64.5**	**66.2**

sfpp investment results in relation to the benchmarks

To evaluate performance and measure the value added by the investment managers from their active investment decisions, such as security selection, the actual investment results are compared to the investment policy benchmark. The benchmark return represents what could reasonably be earned without active management if invested in the market indices in proportion to the policy asset mix approved by the Board. Investment managers strive to earn more than market returns by over or underweighting specific investments in relation to the indices. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio invested in the following indices:

DEX 91-Day T-Bill Index, DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Capped Composite Index, Nesbitt Burns Small Cap Index, S&P 500 Index, Russell 2500 Index, MSCI EAFE Index, IPD Large Institutional All Property Index, CPI plus 8 per cent, CPI plus 6 per cent and CPI plus 4 per cent.

The performance of AIM is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns.

In 2007, the Plan's overall return of 1.9 per cent from its investments out-performed its policy benchmark return of 1.1 per cent by 0.8 per cent. Over four years, the Plan's investments returned 9.4 per cent, 0.8 per cent better than the policy benchmark return of 8.6 per cent. Over an eight-year period, the Plan returned 6.0 per cent, exceeding the policy benchmark return of 5.1 per cent by 0.9 per cent.

The table below compares the actual returns from the Plan's investments against the benchmark index returns.

	Annual Returns				Annualized Returns				
	2007	2006	2005	2004	1yr	2yr	3yr	4yr	8yr
	%	%	%	%	%	%	%	%	%
Total Fund	**1.9**	**14.6**	**12.1**	**9.5**	**1.9**	**8.1**	**9.4**	**9.4**	**6.0**
Policy Return (1)	1.1	13.8	10.6	9.4	1.1	7.3	8.4	8.6	5.1
Consumer Price Index (2)	2.4	1.6	2.2	2.1	2.4	1.9	1.9	2.1	2.3
Short-term Fixed Income	**8.2**	**3.9**	**2.8**	**2.8**	**8.2**	**6.0**	**4.9**	**4.4**	**4.3**
DEX 91-Day T-Bill Index (3)	4.4	4.0	2.6	2.3	4.4	4.2	3.7	3.3	3.6
Total Long Term Fixed Income	**2.2**	**4.4**	**7.8**	**7.9**	**2.2**	**3.3**	**4.8**	**5.6**	**7.3**
Long-term Benchmark Index (4)	3.8	3.7	7.2	7.1	3.8	3.7	4.9	5.4	6.9
Canadian Equities	**9.9**	**18.3**	**24.5**	**15.3**	**9.9**	**14.0**	**17.4**	**16.9**	**10.8**
Canadian Equity Index (5)	8.9	17.3	23.7	14.5	8.9	13.0	16.4	15.9	8.5
United States Equities	**-10.3**	**15.4**	**2.0**	**3.6**	**-10.3**	**1.8**	**1.8**	**2.3**	**-2.5**
US Equity Index (6)	-11.1	15.8	2.1	4.4	-11.1	1.5	1.7	2.4	-2.8
Non-North American Equities	**-2.8**	**26.7**	**12.9**	**12.2**	**-2.8**	**11.0**	**11.6**	**11.8**	**1.0**
MSCI EAFE Index	-5.7	26.3	10.0	12.0	-5.7	9.1	9.4	10.0	0.3
Total Foreign Equity	**-6.5**	**21.3**	**7.6**	**7.9**	**-6.5**	**6.5**	**6.9**	**7.1**	**-0.6**
Foreign Equity Index	-8.3	21.1	6.3	8.1	-8.3	5.4	5.7	6.3	-1.2
Real Estate	**20.8**	**21.3**	**29.9**	**10.6**	**20.8**	**21.0**	**23.9**	**20.5**	**14.0**
IPD Large Institutional All Property Index	16.7	18.6	19.4	12.9	16.7	17.7	18.2	16.9	13.3
Alternative Investments	**20.4**	**14.0**	**10.8**	**4.5**	**20.4**	**17.1**	**15.0**	**12.3**	**n/a**
Alternative Investments Index (7)	7.9	6.5	n/a	n/a	7.9	7.2	n/a	n/a	n/a

(1) The policy benchmark is a product of the weighted average policy sector weights and sector returns.
(2) The Consumer Price Index (CPI) is reported on a real-time basis. CPI data for 2007 used a base year of 2002.
(3) Scotia Capital Fixed Income Indices changed their name to DEX Fixed Income Indices effective October 2007.
(4) Combined DEX Universe, DEX Long All Government and DEX Real Return Bond Index.
(5) Combined S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.
(6) Combined S&P 500 Index and Russell 2500 Index.
(7) Combined Consumer Price Index (CPI) plus 8 per cent, 6 per cent and 4 per cent for private equity, private income and timberland respectively.

fixed income investments

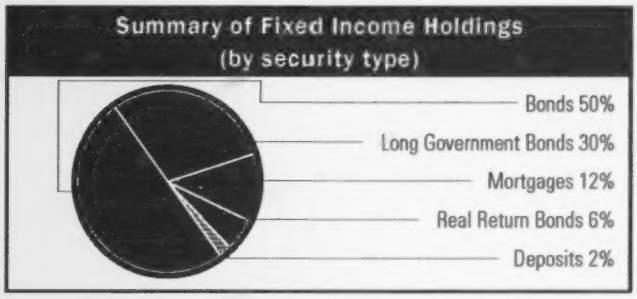
The DEX Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. In 2007, the combined DEX Bond Universe, Long-term Government and Real Return Bond indices increased by 3.8 per cent while the short-term DEX 91-Day T-Bill Index increased by 4.4 per cent.

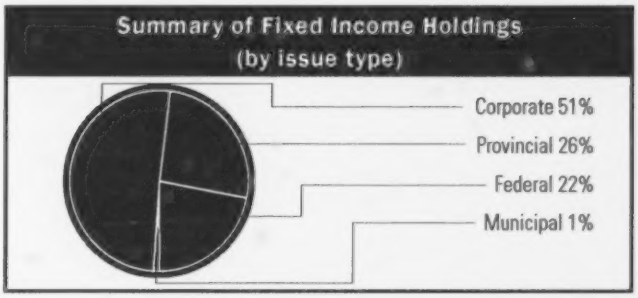
The Plan's actual return in 2007 from long-term fixed income securities was 2.2 per cent, 1.6 per cent less than the combined long-term fixed income benchmark of 3.8 per cent. The actual return from the Plan's cash and short-term investments was 8.2 per cent in 2007, compared to the benchmark, DEX 91-Day T-Bill Index, return of 4.4 per cent. Over four years, the actual return from long-term fixed income securities was 5.6 per cent or 0.2 per cent better than the benchmark of 5.4 per cent.

Short-term Fixed Income	Actual Return %	Benchmark DEX 91-Day T-Bill Index %	Net Value Added %
One Year	8.2	4.4	3.8
Four Years (annualized)	4.4	3.3	1.1
Long-term Fixed Income	**Actual Return %**	**Benchmark* %**	**Net Value Added (Lost) %**
One Year	2.2	3.8	(1.6)
Four Years (annualized)	5.6	5.4	0.2

* Combined DEX Universe, Long Government and Real Return Bond indices.

At December 31, 2007, investments in bonds, mortgages and cash totaled 35.5 per cent of total investments or $524 million up from 33.8 per cent or $495 million the previous year.

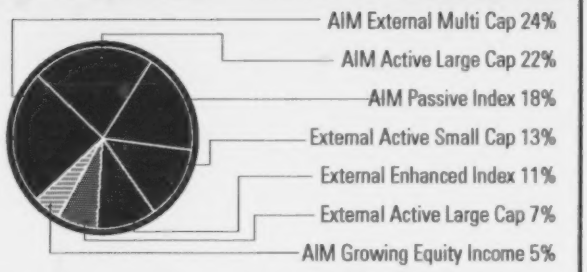




canadian public equity investments

At December 31, 2007, Canadian public equities represented 18.2 per cent of SFPP's total investments or $267 million, up from 16.8 per cent or $245 million at the end of the previous year. Canadian equities are managed through several strategies including both passive index and active mandates. AIM directly manages the passive index and actively managed large cap strategies. External investment advisors also actively manage a large cap strategy (investing in companies with large market capitalization and incorporating value, growth, and core styles) and a small cap strategy.

Summary of Canadian Equity Holdings


AIM External Multi Cap 24%
AIM Active Large Cap 22%
AIM Passive Index 18%
External Active Small Cap 13%
External Enhanced Index 11%
External Active Large Cap 7%
AIM Growing Equity Income 5%

Canadian Equity Holdings by Industry Sector

	2007 %	2006 %
Financials	28	30
Energy	26	26
Materials	17	16
Industrials	8	8
Consumer discretionary	6	6
Telecommunications	6	5
Information technology	5	4
Consumer staples	2	3
Health care	1	1
Utilities	1	1
	100	100

The actual return from Canadian equity investments over the year was 9.9 per cent, 1.0 per cent better than the benchmark Canadian equity index of 8.9 per cent.

Canadian Public Equities	Actual Return %	Benchmark* %	Net Value Added %
One Year	9.9	8.9	1.0
Four Years (annualized)	16.9	15.9	1.0

* Combined S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.

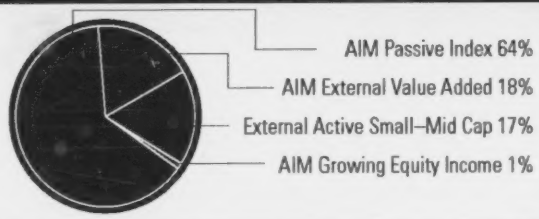
foreign equities

The foreign equity allocation is divided into U.S. and non-North American equity markets. The non-North American segment includes investments in Europe, Australasia and the Far East (EAFE) and Emerging Markets.

u.s. public equities

At December 31, 2007, U.S. public equities comprised 17.6 per cent of the Plan's total investments or $263 million, down from 20.8 per cent or $305 million the previous year. AIM directly manages the passive index and growing equity income while external investment advisors manage the large cap and small-mid cap strategies.

Summary of U.S. Equity Holdings



U.S. Equity Holdings by Industry Sector

	2007 %	2006 %
Financials	18	22
Information technology	16	15
Energy	12	9
Health care	12	12
Industrials	12	12
Consumer discretionary	10	11
Consumer staples	9	8
Materials	4	4
Utilities	4	4
Telecommunications	3	3
	100	100

The Plan's actual return from U.S. equity investments in 2007 was negative 10.3 per cent, 0.8 per cent better than the U.S. benchmark return of negative 11.1 per cent in Canadian dollars.

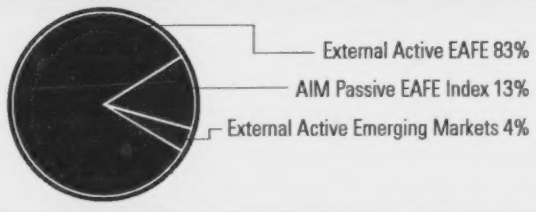
U.S. Public Equities	Actual Return %	Benchmark* %	Net Value Added (Lost) %
One Year	(10.3)	(11.1)	0.8
Four Years (annualized)	2.3	2.4	(0.1)

* Combined S&P 500 and Russell 2500 Index.

non-north american public equities

At December 31, 2007, non-North American public equities comprised 18.4 per cent or $271 million of total Plan investments, down from 20.1 per cent or $296 million the previous year. The Plan's non-North American equity component is comprised of a passive index strategy managed directly by AIM while EAFE Active and Emerging Market strategies are actively managed by external investment advisors.

Summary of Non-North American Equity Holdings



Non-North American Equity Holdings by Industry Sector

	2007 %	2006 %
Financials	21	29
Industrials	15	13
Consumer discretionary	12	13
Energy	9	7
Materials	9	7
Telecommunications	8	6
Consumer staples	7	6
Health care	7	7
Information technology	7	7
Utilities	5	5
	100	100

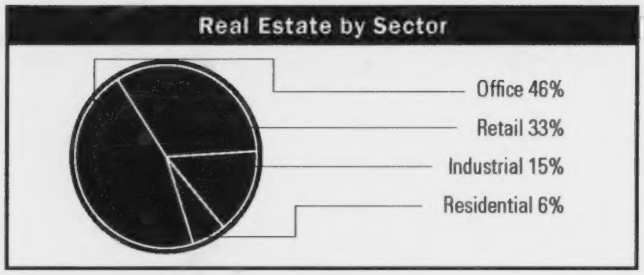
The Plan's actual return from non-North American equity investments in 2007 was negative 2.8 per cent, 2.9 per cent better than the MSCI EAFE Index benchmark return of negative 5.7 per cent in Canadian dollars.

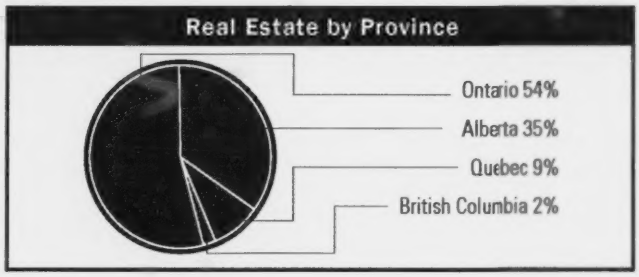
Non-North American Equities	Actual Return %	Benchmark MSCI EAFE Index %	Net Value Added %
One Year	(2.8)	(5.7)	2.9
Four Years (annualized)	11.8	10.0	1.8

real estate

At December 31, 2007, the Plan's Canadian real estate portfolio comprised 7.6 per cent or $112 million of total investments, up from 7.0 per cent or $103 million the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on qualty properties, featuring strong locations and tenants.

Top Five Real Estate Holdings (as at December 31, 2007)		
Property	**Location**	**Sector**
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Square One Shopping Centre	Mississauga, Ontario	Retail
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office



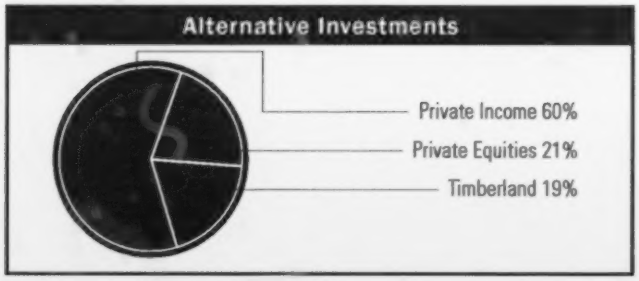


The Plan's actual return from real estate investments in 2007 was 20.8 per cent, 4.1 per cent better than the benchmark return of 16.7 per cent.

Real Estate	Actual Return %	Benchmark IPD Large Institutional ALL Property Index %	Net Value Added %
One Year	20.8	16.7	4.1
Four Years (annualized)	20.5	16.9	3.6

alternative investments

At December 31, 2007, the Plan's alternative investment portfolio comprised 2.7 per cent of total investments or $40 million, up from 1.5 per cent or $21 million the previous year. The alternative investment portfolio consists of externally managed private equity, private income and timberland investments. These investments are all relatively illiquid asset classes and require time to build and exit the investment.



Overall, the actual return from alternative investments during the year was 20.4 per cent, 12.5 per cent better than the benchmark return of 7.9 per cent.

Alternative Investments	Actual Return %	Benchmark* %	Net Value Added %
One Year	20.4	7.9	12.5
Four Years (annualized)	12.3	5.0	7.3

* Combined Consumer Price Index (CPI) plus 8 per cent, 6 per cent and 4 per cent.
The Alternative Investment Index started in April 2005

private income

At December 31, 2007, private income investments comprised 1.6 per cent of the Plan's total investment portfolio or $24 million compared to 1.1 per cent or $16 million the previous year. Private income investments include infrastructure related projects that are structured to yield high current income. In 2007, private income investments returned 12.4 per cent.

timberland

At December 31, 2007, timberland investments comprised 0.5 per cent of the Plan's total investment portfolio or $8 million compared to 0.4 per cent or $5 million the previous year. Timberland includes investments in forestry land in Canada and globally. The timberland investment in Canada represents an interest in a limited partnership which includes forestry land and land held for higher and better use located in British Columbia. In 2007, timberland investments returned 59.0 per cent primarily based on the valuation of land held for higher and better use.

private equities

At December 31, 2007, the new global private equity investment comprised 0.6 per cent of the Plan's total investment portfolio or $8 million. The portfolio includes investments in institutionally-sponsored international private equity pools managed by experienced external investment advisors with proven track records.

aim's forward looking statements

Difficulties in global credit markets, evident since the middle of 2007, will hamper global growth prospects through 2008. Globally, financial institutions have been impacted in two ways. First, they have taken losses on assets held directly on their books. Second, the rapid reduction in the willingness of non-banks to hold risky assets has forced financial institutions to hold more loans than they would otherwise have expected. This process limits the financial sector's ability and/or willingness to extend new credit to businesses and households for investment and consumption. This limitation could lead to a reduction in global growth through 2008.

The United States housing market is the root of the global financial difficulties in 2007. There remains an oversupply of housing, suggesting that U.S. residential investment will remain weak through 2008. The constraints on the financial system will likely hamper nonresidential investment through the year and will likely also put downward pressure on the U.S. consumer. Weaker U.S. and global growth suggest a high likelihood of slower growth in Canada, with downward pressure on commodity prices.

Slower growth also suggests downward pressure on corporate profit growth. Financial markets have already responded to this likelihood by selling off sharply in early 2008. While equity markets will respond positively when there is the appearance that the worst of the economic news is known, markets will likely remain volatile through the first half of 2008, at a minimum. Interest rates, already lower as central banks attempt to counter the constraints on the global financial system, will also remain choppy. At the outset of 2008, we expect further interest rate cuts from both the U.S. Federal Reserve Board and the Bank of Canada.

The disruption in the global credit markets has tightened real estate lending requirements in North America and Europe, putting moderate leverage investors in a better position to secure deals at improved pricing. In Asia, real estate markets appear positioned for further growth driven by rapidly growing investor interest, a ready supply of debt capital and strengthening fundamentals. These market fundamentals suggest a positive outlook for investment in real estate. In the last few years, real estate has provided good returns to investors and, in general, institutional investors are increasing their allocations to real estate. While these favorable market conditions may continue, there are signs it is a time to be defensive, patient and disciplined.

risk management system

AIM has developed a market risk management system to model and measure the market risks associated with investments for SFPP. In the future, the risk system will provide a framework for measuring, monitoring, and managing risk to assist in future decisions regarding investment and risk policies.

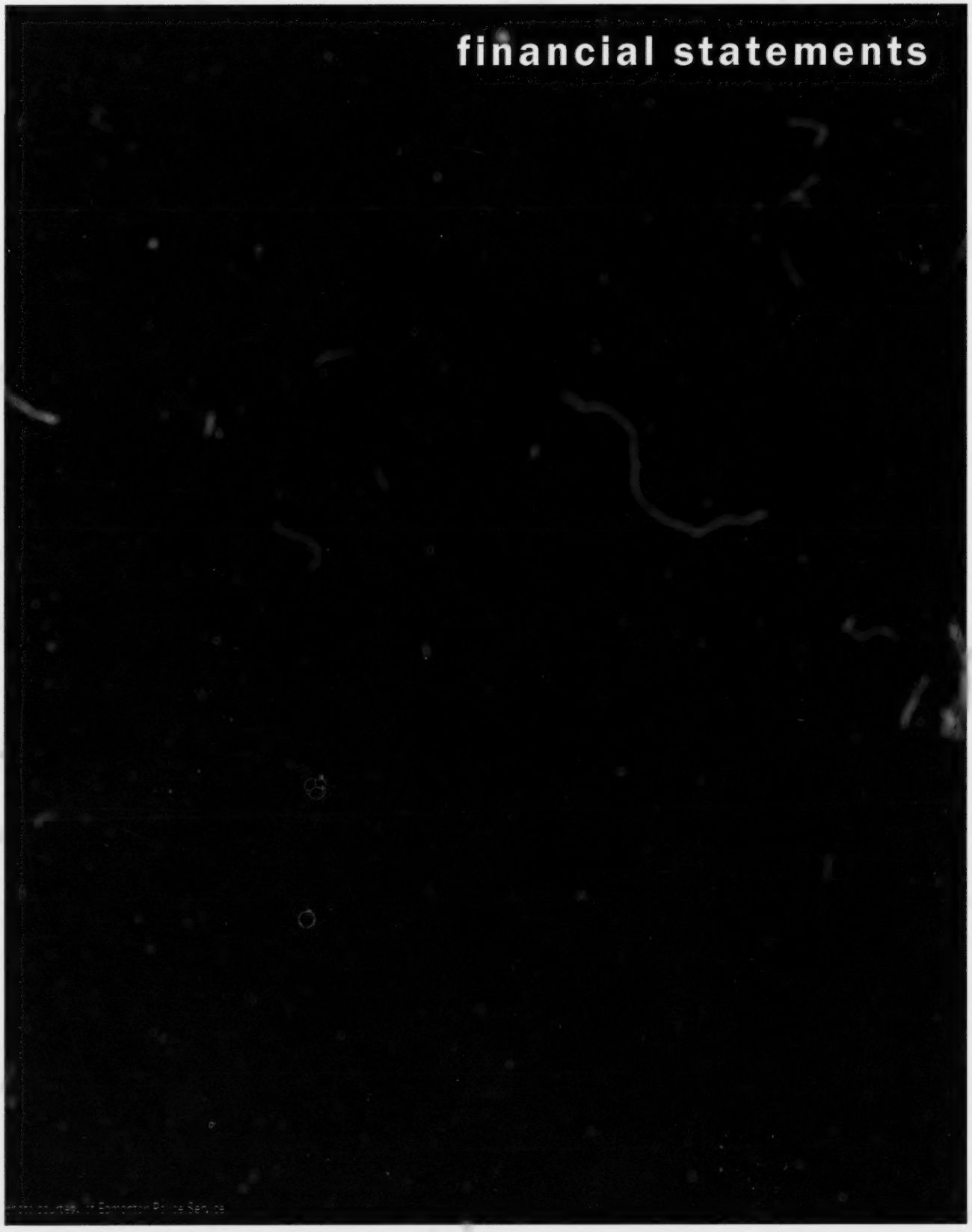
proxy voting

The SFP Board delegates responsibility for proxy voting to AIM. Pension funds are managed in the best interests of beneficiaries. AIM sources proxy advisory services through ISS Governance Services and is a member of the Canadian Coalition of Good Governance (CCGG).

ISS, a division of Risk Metrics Group, has over 200 analysts providing comprehensive, recommendation-based research on at least 38,000 meetings spanning more than 100 markets worldwide. ISS votes the proxy and each proxy is subject to rigorous analysis where votes are cast solely in the interests of plan participants and beneficiaries. AIM retains the right to over-ride ISS should votes appear to be contrary to AIM principles.

AIM monitors the opinions of the CCGG and peer organizations regarding potentially contentious issues and the governance practices of specific companies.

financial statements



management's responsibility for financial reporting

The Special Forces Pension Plan (Plan) financial statements and financial information in the 2007 Annual Report are the responsibility of the Minister of Finance and Enterprise. Certain of these responsibilities are undertaken on behalf of the Minister of Finance and Enterprise by:

- Alberta Investment Management (AIM), the investment operation of Alberta Finance and Enterprise, which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board; and
- Alberta Pensions Administration Corporation (APA), which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance and Enterprise. This responsibility also includes compilation of the Plan's Annual Report.

The information in the annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance and Enterprise, based on information provided by APA Corporation and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Finance and Enterprise in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2007 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance and Enterprise, APA and AIM each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

Original signed by:

Robert Bhatia
Deputy Minister of Finance and Enterprise

April 11, 2008

auditor's report

AUDITOR GENERAL *Alberta*

To the Minister of Finance and Enterprise and the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Special Forces Pension Plan (the Plan) as at December 31, 2007, and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Surplus (Deficiency) for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2007 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Surplus (Deficiency) for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by:

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
April 11, 2008

The official version of this report of the Auditor General, and the information the report covers, is in printed form.

special forces pension plan

statement of net assets available for benefits and accrued benefits as at december 31, 2007

	2007	2006
	($ thousands)	
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 1,475,924	$ 1,464,816
Accounts receivable (Note 6)	2,801	2,953
	1,478,725	1,467,769
Liabilities		
Accounts payable	189	509
Net assets available for benefits	1,478,536	1,467,260
Accrued benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,543,522	1,424,137
Indexing Fund	13,665	9,849
	1,557,187	1,433,986
Surplus (Deficiency)		
Plan Fund*	(78,651)	33,274
Indexing Fund	-	-
	$ (78,651)	**$ 33,274**

* The Plan Fund surplus (deficiency) is comprised of a pre-1992 deficiency of $85,843 (2006: $25,135) and a post-1991 surplus of $7,192 (2006: $58,409).

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statement of changes in net assets available for benefits
for the year ended december 31, 2007

	2007			2006
	Plan Fund	Indexing Fund	Total	Total
	($ thousands)			
Increase in assets				
Net investment income (Note 8)				
Investment income	$ 32,363	$ 187	$ 32,550	$ 190,845
Investment expenses	(4,181)	-	(4,181)	(2,898)
	28,182	187	28,369	187,947
Contributions (Note 9)	51,466	3,629	55,095	52,441
	79,648	3,816	83,464	240,388
Decrease in assets				
Pension benefits	65,724	-	65,724	58,744
Refunds and transfers	5,530	-	5,530	4,364
Administration expenses (Note 10)	934	-	934	1,010
	72,188	-	72,188	64,118
Increase in net assets	7,460	3,816	11,276	176,270
Net assets available for benefits at beginning of year	1,457,411	9,849	1,467,260	1,290,990
Net assets available for benefits at end of year	**$ 1,464,871**	**$ 13,665**	**$ 1,478,536**	**$ 1,467,260**

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statement of changes in accrued benefits
for the year ended december 31, 2007

	2007			2006
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Increase in accrued benefits				
Interest accrued on benefits	$ 50,758	$ 43,034	$ 93,792	$ 93,907
Benefits earned	-	40,206	40,206	38,159
Changes in actuarial assumptions	20,853	20,255	41,108	-
Experience losses	1,411	2,315	3,726	-
Cost-of-living indexing adjustments and interest	8,732	6,894	15,626	6,695
	81,754	112,704	194,458	138,761
Decrease in accrued benefits				
Benefits, transfers and interest	54,562	16,695	71,257	63,108
	54,562	16,695	71,257	63,108
Net increase in accrued benefits	27,192	96,009	123,201	75,653
Accrued benefits at beginning of year	786,946	647,040	1,433,986	1,358,333
Accrued benefits at end of year	**$ 814,138**	**$ 743,049**	**$ 1,557,187**	**$ 1,433,986**

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statement of changes in surplus (deficiency)
for the year ended december 31, 2007

	2007			2006
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Surplus (deficiency) at beginning of year	$ (25,135)	$ 58,409	$ 33,274	$ (67,343)
Increase (decrease) in net assets available for benefits	(33,516)	44,792	11,276	170,906
Net increase in accrued benefits	(27,192)	(96,009)	(123,201)	(70,289)
Surplus (Deficiency) at end of year (Note 13)	**$ (85,843)**	**$ 7,192**	**$ (78,651)**	**$ 33,274**

The accompanying notes and schedules are part of these financial statements.

notes to the financial statements
december 31, 2007

(All dollar amounts in thousands, except per member data)

note 1 — summary description of the plan

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 369/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the federal *Income Tax Act*. The Plan's registration number is 0584375. The Minister of Finance and Enterprise acts as trustee for the Plan.

(b) Plan Funding

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan. Employees and employers are responsible for fully funding service after 1991.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2007 were 1.25 per cent of pensionable salary for the Province of Alberta, and 0.75 per cent each for employers and employees.

The Special Forces Pension Board (the Board), in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2006. The current service contribution rates for employers are 1.1 per cent higher than the rates of employees. The contribution rates in effect at December 31, 2007 for current service and post-1991 actuarial deficiency were unchanged from December 31, 2006 at 9.61 per cent of pensionable salary for employers and 8.51 per cent for employees. Total contribution rates, including contributions for the unfunded liability for pre-1992 service and Cost-of-Living Adjustment (COLA) payments, to the Plan are 11.11 per cent of pensionable salary for employers and 10.01 per cent for employees and 1.25 per cent for the Province of Alberta.

Indexing Fund

Benefit payment increases for post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) are funded by contributions to the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2007 were 0.75 per cent of pensionable salary each for employers and employees. Rates are reviewed at least once every three years by the Board based on recommendations of the Plan's actuary. To date, contributions to the Indexing Fund have provided COLA for service from 1992 to 2000.

Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

note 1 — summary description of the plan (continued)

(c) Retirement Benefits

The Plan provides for a lifetime pension of 1.4 per cent for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the federal *Income Tax Act*. An additional temporary bridge benefit of 0.6 per cent for each year of pensionable service is paid to age 65 based on the average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. The maximum service allowable under the plan is 35 years.

For a member who has a pension partner at retirement, the normal form of pension is a Joint and Last Survivor, guaranteed for a five-year period, with 65 per cent continuing to the pension partner if he or she survives the member. For a member who does not have a pension partner at retirement, the normal form is a single life pension guaranteed for a five-year period.

(d) Disability Benefits

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

(e) Death Benefits

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

(f) Termination Benefits, Refunds and Transfers

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the Statement of Changes in Net Assets Available for Benefits.

(g) Guarantee

Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

(i) Cost-of-Living Adjustments (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60 per cent of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting cost-of-living adjustments based on funds available in the Indexing Fund (see Note 12). As of December 31, 2007, COLA has been granted to December 31, 2000.

note 2 — summary of significant accounting policies and reporting practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Finance and Enterprise. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance and Enterprise.

The fair value of private equity and income investments are estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

The fair value of Timberland investments is appraised annually by independent third party valuators.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Investment income and expenses are recorded on an accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on all investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

note 2 — summary of significant accounting policies and reporting practices (continued)

(e) Valuation of Derivative Contracts (continued)

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps and cross currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private investments, real estate and timberland investments. Uncertainty arises because:

(i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private investments, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

note 3 — investments (schedules a to e)

	2007 Fair Value ($ thousands)	%	2006 Fair Value ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 8,415	0.6	$ 8,241	0.6
Universe Fixed Income Pool (b)	262,533	17.8	285,177	19.5
Canadian Long Term Government Bond Pool (b)	156,955	10.6	106,840	7.3
Private Mortgage Pool (c)	61,769	4.2	62,581	4.3
Real rate of return bonds (d)	29,633	2.0	23,633	1.6
Currency Alpha Pool (e)	2,103	0.1	3,598	0.2
Tactical Asset Allocation Pool (f)	2,375	0.2	5,052	0.3
	523,783	35.5	495,122	33.8
Canadian Equities (Schedule B)				
Canadian Structured Equity Pool (g)	47,662	3.2	85,276	5.8
Canadian Pooled Equities Fund (h)	58,547	3.9	57,883	4.0
Canadian Large Cap Equity Pool (i)	19,419	1.3	18,674	1.3
Canadian Small Cap Equity Pool (i)	35,483	2.4	34,433	2.4
Canadian Equity Enhanced Index Pool (j)	28,734	1.9	29,362	2.0
Canadian Multi-Cap Pool (k)	63,869	4.3	23,535	1.6
Growing Equity Income Pool (l)	12,203	1.0	12,421	0.8
Private Equity Pool	992	0.1	3,817	0.3
Tactical Asset Allocation Pool -futures contracts (f)	-	0.0	(20,326)	(1.4)
	266,909	18.2	245,075	16.8
United States Equities (Schedule C)				
U.S. Structured Equity Pool (m)	168,537	11.4	192,240	13.1
U.S. Small/Mid Cap Equity Pool (n)	44,199	3.0	44,567	3.0
Portable Alpha U.S. Pool (o)	47,495	3.2	43,701	3.0
Growing Equity Income Pool (l)	2,649	-	4,062	0.3
Tactical Asset Allocation Pool -futures contracts (f)	-	0.0	20,326	1.4
	262,880	17.6	304,896	20.7
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (p)	225,414	15.3	243,051	16.6
Emerging Markets Equity Pool (q)	10,052	0.7	16,433	1.1
EAFE Structured Equity Pool (r)	35,295	2.4	35,617	2.4
EAFE Passive Equity Pool	-	0.0	460	-
	270,761	18.4	295,561	20.1

note 3 — investments (schedules a to e) (continued)

Real Estate Equities (Schedule E)				
Private Real Estate Pool (s)	111,891	7.6	102,799	7.0
Alternative Investments - Equities				
Private Income Pools (t)	23,681	1.6	16,024	1.1
Timberland Pool (u)	7,602	0.5	5,339	0.4
Global Private Equities (v)	8,417	0.6	-	-
	39,700	2.7	21,363	1.5
Total equities	952,141	64.5	969,694	66.2
Total investments	**$ 1,475,924**	**100.0**	**$ 1,464,816**	**100.0**

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Universe Fixed Income Pool (UFIP) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the DEX Universe Bond Index and the DEX Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The UFIP portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests primarily in high quality fixed income instruments of the federal, provincial and municipal governments of Canada. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. The Pool primarily invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

(f) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At December 31, 2007, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5 per cent to 10 per cent of the Pool's notional exposure in United States equity index futures contracts.

note 3 — investments (schedules a to e) (continued)

(g) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(h) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(i) The Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to investing in publicly traded Canadian equities with a market capitalization of up to 0.15 per cent of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(j) The Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(k) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows for its equity swap obligations.

(l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Dividend Paying Stock Index.

(m) The U.S. Structured Equity Pool is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Total Return Index over a four-year period. The Pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the Pool also invests in futures, swaps and other structured investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(n) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the U.S. Small/Mid cap equity markets. The performance objective is to provide returns higher than the total return of the S&P Russell 2500 Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(o) The Portable Alpha U.S. Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over a four-year period.

note 3 — investments (schedules a to e) (continued)

(p) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(q) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

(r) The EAFE Structured Equity Pool 's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pool provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(s) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediary companies which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

(t) Private Income Pools are managed with the objective of providing investment returns comparable to the Consumer Price Index plus 6 per cent over the long term. The Pool invests in infrastructure related projects that are structured to yield high current income.

(u) The Timberland Pool provides high current income and long investment income horizons. The Timberland investment is primarily a partnership in forestry land in British Columbia. The performance objective is to earn a return higher than Consumer Price Index plus 4.0 per cent.

(v) The Global Private Equity Pool is managed with the objective of providing investment returns comparable to the Consumer Price Index plus 8.0 per cent. The Foreign Equity Pool invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records.

note 4 — investment risk management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following long-term benchmark policy asset mix for investments:

Fixed income securities	29.0%
Canadian equities	17.0%
U.S. equities	17.5%
Non-North American equities	17.5%
Real estate	7.0%
Private income	5.0%
Absolute return strategies	5.0%
Timberland	2.0%

note 4 — investment risk management (continued)

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

note 5 — derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. Generally there are underlying securities supporting all swaps and leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

note 5 — derivative contracts (continued)

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2007:

	2007					2006	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)		($ thousands)	
Equity index swap contracts	94	6	-	$ 328,621	$ 4,000)	$ 312,455	$ 9,656
Credit default swap contracts	2	22	76	280,126	(833)	154,233	195
Interest rate swap contracts	6	15	79	157,308	(752)	231,639	(141)
Swap options contracts	52	-	48	150,276	28	263,665	(192)
Forward foreign exchange contracts	100	-	-	122,896	(537)	126,433	(299)
Cross-currency interest rate swap contracts	22	49	29	84,373	4,116	84,827	2,711
Equity index futures contracts	100	-	-	80,276	2,062	102,679	3,213
Bond index swap contracts	100	-	-	55,914	1,331	80,624	330
				$1,259,790	$ 1,415	$1,356,555	$ 15,473

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). Credit exposure is limited by dealing with counter-parties with good credit standing.

Note 6 accounts receivable

	2007	2006
	($ thousands)	
Contributions receivable		
Employers	$ 1,303	$ 1,284
Employees	1,193	1,182
Province of Alberta	239	230
	2,735	2,696
Receivable from (payable to) Alberta Pensions Administration Corporation	(5)	119
Receivable from sale of investments and accrued investment income	71	138
	$ 2,801	**$ 2,953**

note 7 — accrued benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2006 by Hewitt and Associates and was then extrapolated to December 31, 2007.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary and the Board, Alberta Finance and Enterprise adopted these best estimates.

The major assumptions used were:

	December 31	
	2006 Valuation and 2007 Extrapolation	2004 Valuation and 2006 Extrapolation
	%	
Investment return	6.50	7.00
Inflation rate	2.50	3.25
Salary escalation rate*		
For 2007	3.90	3.75
For 2008	4.40	3.75
Thereafter	3.00	3.75

* In addition to merit and promotion.

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits.

Based on the information provided above, the following table summarizes the fair value of net assets, accrued benefits, and the resulting deficiency of the Plan Fund as at December 31, 2007:

	2007			2006
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Plan Fund net assets available for benefits	$ 728,295	$ 736,575	$ 1,464,870	$ 1,457,411
Plan Fund accrued benefits	814,141	729,380	1,543,521	1,424,137
Plan Fund surplus (deficiency) (Note 13)	**$ (85,846)**	**$ 7,195**	**$ (78,651)**	**$ 33,274**

As at December 31, 2007, the Indexing Fund held investments of $13,665 (2006 $9,849) with offsetting accrued benefits of the same amount.

note 7 accrued benefits (continued)

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2007:

		Sensitivities	
	Changes in Assumptions %	**Increase in Plan Deficiency** ($ million)	**Increase in Current Service Cost as a % of Pensionable Earnings***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 89	0.0% **
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	34	1.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	228	4.2%

* The current service cost as a per cent (%) of pensionable earnings as determined by the December 31, 2006 valuation was 16.48%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

Note 8 net investment income

(a) Investment Income

Net investment income is comprised of the following:

	2007	**2006**
	($ thousands)	
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ (26,498)	$ 138,764
Interest income	39,688	34,300
Dividend income	14,135	12,824
Real estate operating income	4,616	4,522
Securities lending income	609	435
	32,550	190,845
Investment expenses	(4,181)	(2,898)
Net investment income	**$ 28,369**	**$ 187,947**

note 8 — net investment income (continued)

(a) Investment Income (continued)

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2007	2006
	($ thousands)	
Fixed income securities	$ 11,811	$ 21,656
Canadian equities	26,547	43,674
Foreign equities		
United States	(28,504)	37,993
Non-North American	(7,488)	63,957
Alternative investments - equities	5,718	2,458
Real estate equities	20,285	18,209
	$ 28,369	**$ 187,947**

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	1.9%	9.4%	6.0%
Policy Benchmark**	1.1%	8.6%	5.1%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

(b) Investment Expenses

On January 1, 2008, the investment operations of the Department of Finance and Enterprise were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance and Enterprise. It provides the day to day investment services for the Fund's investment portfolio. AIMCo invests the assets for the long-term benefit of the Plan's membership and in accordance with the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

note 8 — net investment income (continued)

(b) Investment Expenses (continued)

Investment services provided by AIMCo and external managers include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. The Department of Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets are provided below:

	2007	2006
	($ thousands)	
Investment operations of Alberta Finance and Enterprise	$ 799	$ 554
External manager fees	3,382	2,344
Total investment expenses	**$ 4,181**	**$ 2,898**
Investment expenses as a percentage of net assets	0.28%	0.20%

note 9 — contributions

	2007	2006
	($ thousands)	
Current and optional service		
Employers	$ 24,063	$ 22,760
Employees	21,956	20,884
Unfunded liability		
Employers	2,880	2,775
Employees	2,880	2,775
Province of Alberta	2,975	2,866
Transfers from other plans (net)	341	381
	$ 55,095	**$ 52,441**

note 10 — administration expenses

	2007	2006
	($ thousands)	
General administration costs	$ 797	$ 994
Actuarial fees	137	16
	$ 934	**$ 1,010**

note 10 — administration expenses (continued)

Total administration expenses including investment management costs amounted to $239 per member (2006 $241 per member).

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

The Plan's share of Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance and Enterprise.

Investment management costs totaling $354 (2006: $240) were paid to Alberta Finance and Enterprise on a cost recovery basis. Pooled funds management and associated custodial fees totaling $3,827 (2006: $2,651), which have been deducted in arriving at the calculation of net investment income of the Pools, are excluded from Plan expenses (see Note 8).

note 11 — remuneration of board members

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective October 15, 2007:		
Up to 4 hours	$ 200	$ 150
4 to 8 hours	350	265
Over 8 hours	550	390

	2007	2006
During 2007, the following amounts were paid:		
Remuneration		
Chair	$ 2,450	$ 2,528
Members	19,926	14,654
Travel expenses		
Chair	2,067	2,879
Members	12,713	12,985

note 12 — transfer from the indexing fund to the plan fund

Transfer from the Indexing Fund to the Plan Fund is approved by the Board based on the Plan actuary's advice to finance the payment of cost-of-living increases for post-1991 service by the Plan Fund (see Note 1(i)).

As at December 31, 2007, cost-of-living increases for post-1991 service from January 1, 1992 to December 31, 2000 have been granted at 60 per cent of the increase in the Alberta Consumer Price Index.

note 13 — funding of actuarial deficiency

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However for funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation and extrapolation purposes amounted to $1,454 million at December 31, 2007 (2006: $1,373 million).

note 13 — funding of actuarial deficiency (continued)

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totaling 1.86 per cent of pensionable salary shared equally between employees and employers until December 31, 2019. The special payment is included in the rates in effect at December 31, 2007 (see Note 1(b)).

note 14 — comparative figures

Comparative figures have been reclassified to be consistent with 2007 presentation.

note 15 — responsibility for financial statements

These financial statements were approved by the Deputy Minister of Finance and Enterprise, based on information provided by Alberta Pensions Administration Corporation and the Plan's actuary, and after consultation with the Special Forces Pension Board.

special forces pension plan

schedule of investments in fixed income securities
december 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 13,591	$ 16,181
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	109,761	122,095
Provincial		
Alberta, direct and guaranteed	78	108
Other, direct and guaranteed	129,998	109,546
Municipal	3,454	691
Corporate	260,682	242,336
	503,973	474,776
Receivable from sale of investments and accrued investment income	6,686	4,563
Liabilities for investment purchases	(467)	(398)
	6,219	4,165
	$ 523,783	**$ 495,122**

(a) Fixed income securities held as at December 31, 2007 had an average effective market yield of 5.85 per cent per annum (2006 5.28 per cent per annum). The following term structure of these securities as at December 31, 2007 was based on the principal amount.

	2007	2006
	%	
Under 1 year	3	2
1 to 5 years	19	23
6 to 10 years	29	30
11 to 20 years	14	13
Over 20 years	35	32
	100	**100**

special forces pension plan

schedule of effective net investments in canadian equities
december 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 1,854	$ 1,503
Public equities (a) (b)		
Consumer discretionary	15,177	13,997
Consumer staples	5,864	7,634
Energy	66,346	60,162
Financials	71,906	69,504
Health care	1,142	2,042
Industrials	20,004	18,910
Information technology	13,488	10,818
Materials	42,098	38,283
Telecommunication services	13,850	11,505
Utilities	2,875	2,317
	252,750	235,172
Passive index	9,730	579
	262,480	235,751
Private Equity Pool	992	3,817
Receivable from sale of investments and accrued investment income	2,579	4,362
Liabilities for investment purchases	(996)	(358)
	1,583	4,004
	$ 266,909	**$ 245,075**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling $83,751 (2006: $96,371).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

special forces pension plan

schedule of effective net investments in united states equities
december 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 4,032	$ 1,380
Public equities (a) (b)		
Consumer discretionary	24,664	33,633
Consumer staples	24,308	25,196
Energy	31,024	27,786
Financials	46,079	67,130
Health care	32,461	36,931
Industrials	31,383	35,583
Information technology	43,234	46,361
Materials	10,683	10,316
Telecommunication services	8,495	9,315
Utilities	10,614	10,819
	262,945	303,070
Passive index	740	160
	263,685	303,230
Receivable from sale of investments and accrued investment income	1,033	1,031
Liabilities for investment purchases	(5,870)	(745)
	(4,837)	286
	$ 262,880	**$ 304,896**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in United States public equities includes the notional amount of U.S. equity index swap and futures contracts totalling $179,830 (2006: $211,681).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index.

special forces pension plan

schedule of effective net investments in non-north american equities
december 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 5,158	$ 6,058
Public equities (a) (b)		
Consumer discretionary	30,664	36,435
Consumer staples	18,589	18,035
Energy	23,321	20,143
Financials	55,530	82,033
Health care	18,581	19,957
Industrials	40,018	38,573
Information technology	17,913	18,713
Materials	22,429	20,296
Telecommunication services	22,201	17,949
Utilities	12,642	13,167
	261,888	285,301
Passive index	5,553	6,743
Receivable from sale of investments and accrued investment income	1,364	3,488
Liabilities for investment purchases	(3,202)	(6,029)
	(1,838)	(2,541)
	$ 270,761	**$ 295,561**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling $37,656 (2006: $37,330).

special forces pension plan

schedule of effective net investments in non-north american equities (continued)
december 31, 2007

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard and Poor's. Non-North American public equities by country are as follows:

	Plan's Share	
	2007	2006
	($ thousands)	
United Kingdom	$ 51,500	$ 61,205
Japan	47,383	55,969
France	28,461	31,584
Germany	26,475	21,534
Switzerland	18,217	16,438
Netherlands	11,970	16,537
Australia	10,981	8,889
Spain	10,473	11,668
Italy	8,891	10,038
Finland	5,421	4,127
Other	42,116	47,312
	$ 261,888	$ 285,301

special forces pension plan

schedule of investments in real estate
december 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 124	$ 53
Real estate (a)		
Office	50,078	50,980
Retail	35,233	30,121
Industrial	16,164	13,058
Residential	6,191	4,967
	107,666	99,126
Passive index	4,048	3,555
Receivable from sale of investments and accrued investment income	53	65
	$ 111,891	**$ 102,799**

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2007	2006
	($ thousands)	
Ontario	$ 58,104	$ 56,846
Alberta	38,086	30,983
Quebec	9,227	9,364
British Columbia	2,249	1,933
	$ 107,666	$ 99,126

10-year plan summary (unaudited)

For the year ended december 31, 2007

($ thousands)	2007	2006*	2005	2004	2003	2002	2001	2000	1999	1998
Change in net assets										
Income										
Investment income (loss)	$28,369	$187,947	$139,929	$100,599	$121,981	$(58,936)	$(25,851)	$73,808	$139,037	$63,154
Contributions										
Employers	24,063	22,760	22,214	19,594	18,387	16,033	15,625	14,064	13,881	12,528
Employees	21,956	20,884	20,557	18,089	17,051	14,934	14,292	12,900	12,593	11,424
Unfunded liability										
Employers	2,880	2,775	2,721	2,392	2,226	1,324	1,279	1,165	1,113	1,030
Employees	2,880	2,775	2,721	2,392	2,226	1,324	1,279	1,165	1,113	1,030
Transfers from Alberta	2,975	2,866	2,788	2,471	2,300	2,206	2,132	1,924	1,856	1,716
Transfers from other plans	341	381	450	621	19	60	175	92	37	29
Total Income	**83,464**	**240,388**	**191,380**	**146,158**	**164,190**	**(23,055)**	**8,931**	**105,118**	**169,630**	**90,911**
Expenditures										
Benefits paid	65,724	58,744	53,370	49,201	45,509	42,883	38,865	36,427	34,204	32,564
Refunds and transfers	5,530	4,364	2,299	811	486	668	631	658	380	489
Administration expenses	934	1,010	1,373	1,326	1,196	1,017	797	658	630	541
Total expenditures	**72,188**	**64,118**	**57,042**	**51,338**	**47,191**	**44,568**	**40,293**	**37,743**	**35,214**	**33,594**
Increase (decrease) in net assets	**11,276**	**176,270**	**134,338**	**94,820**	**116,999**	**(67,623)**	**(31,362)**	**67,375**	**134,416**	**57,317**
Net Assets										
Investments										
Deposits	—	—	5,390	8,803	6,713	6,110	12,179	15,985	2,393	8,197
Fixed income securities	523,783	495,122	437,091	405,724	362,113	341,206	355,145	370,300	328,453	319,923
Equities										
Canadian	266,909	245,075	253,309	237,335	224,597	190,577	268,503	288,511	413,417	299,360
United States	262,880	304,896	238,623	210,834	196,839	172,959	165,403	159,888	72,125	86,603
Non-North American	270,761	295,561	255,725	231,926	216,239	181,796	159,687	163,152	116,616	105,363
Real Estate	111,891	102,799	85,713	55,793	52,613	50,202	49,755	44,535	42,201	22,384
Private Income Pool	23,681	16,024	6,846	3,875	493	—	—	—	—	—
Timberland Pool	7,602	5,339	5,536	—	—	—	—	—	—	—
Global Private Equities	8,417	—	—	—	—	—	—	—	—	—
Total Investments	**1,475,924**	**1,464,816**	**1,288,233**	**1,154,290**	**1,059,607**	**942,850**	**1,010,672**	**1,042,371**	**975,205**	**841,830**
Contributions and other receivables	2,801	2,953	2,782	2,379	2,400	2,051	1,792	1,512	1,304	364
Liabilities	(189)	(509)	(25)	(17)	(175)	(68)	(8)	(65)	(66)	(167)
Net Assets available for benefits	1,478,536	1,467,260	1,290,990	1,156,652	1,061,832	944,833	1,012,456	1,043,818	976,443	842,027
Actuarial value of accrued benefits	1,557,187	1,433,986	1,358,333	1,365,005	1,289,059	1,210,678	1,106,172	1,041,763	893,891	838,291

*Certain 2006 figures have been reclassified to conform with 2007 presentation.

continued on next page.

10-year plan summary (continued) (unaudited)

For the year ended december 31, 2007

($ thousands)	2007	2006*	2005	2004	2003	2002	2001	2000	1999	1998
Performance (%)										
Long-term goal	6.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50	7.50
Rate of return — nominal	1.90	14.60	12.10	9.50	13.00	(5.90)	(2.60)	7.40	16.50	8.10
Benchmark	1.10	13.80	10.60	9.40	12.50	(6.90)	(3.40)	6.10	15.10	10.40
Consumer Price Index (Canada)	2.40	1.60	2.20	2.10	2.00	3.90	0.70	3.20	2.50	1.00
Real rate of return	(0.50)	13.00	9.90	7.40	11.00	(9.80)	(3.30)	4.20	14.00	7.10
Interest Rates (%)										
Bank of Canada	4.25	4.25	3.25	2.75	3.00	3.00	2.50	6.00	5.00	5.30
US Federal Reserve	4.25	5.25	4.25	2.25	1.00	0.75	1.25	6.50	5.50	4.50
Market Indices (%)										
S&P/TSX ($Cdn)	9.83	17.26	24.13	14.48	26.75	(12.45)	(12.57)	7.41	31.70	(1.59)
S&P 500 ($Cdn)	(10.55)	15.74	1.63	3.26	5.29	(22.89)	(6.35)	(5.79)	14.20	38.00
MSCI EAFE ($Cdn)	(5.74)	26.28	9.98	11.98	13.39	(16.82)	(16.50)	(11.19)	19.97	28.80
DEX Universe Bond Index	3.68	4.06	6.46	7.10	6.69	8.73	8.08	10.25	(1.14)	9.18
Participants										
Active Members	3,427	3,389	3,347	3,195	3,064	3,080	2,856	2,729	2,708	2,560
Deferred Members	111	92	75	60	56	57	35	42	49	50
Pensioners	1,949	1,805	1,647	1,545	1,459	1,365	1,287	1,207	1,143	1,080
Total	**5,487**	**5,286**	**5,069**	**4,800**	**4,579**	**4,502**	**4,178**	**3,978**	**3,900**	**3,690**
Average age of active members (years)	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.1	38.8	38.8
Average age of pensioners (years)	60.8	60.8	60.8	60.8	60.8	60.1	60.1	59.7	58.8	58.8
Average annual pension amount	$34,920	$33,588	$33,132	$31,101	$31,101	$31,309	$31,309	$30,548	$30,523	$30,523
Current Contribution Rates (%)										
Employees	8.51	8.51	8.51	8.51	8.51	7.20	7.20	7.20	7.20	7.20
Employers	9.61	9.61	9.61	9.61	9.61	8.30	8.30	8.30	8.30	8.30
Unfunded liability — Pre 1992										
Province of Alberta	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Employer and Employee	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Indexing — Employer and Employee	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Annual COLA pension adjustment**	2.16	1.20	0.78	3.42	1.02	1.98	1.98	1.32	0.66	1.32

*Certain 2006 figures have been reclassified to conform with 2007 presentation.
** As of January 1, 2006, all service years to the end of 2000 receive COLA

2008 directory

employee nominees
Denis Jubinville (Chair), Edmonton Police Association
Ron Ternes, Calgary Police Association
Dwayne Smith, Lethbridge Regional Police Association

employer nominees
Roger Rosychuk, City of Edmonton
Garth Sherwin (Vice-Chair), City of Lethbridge
David Watson, City of Calgary

crown nominee
Alex Fowlie

board secretary
Liz Doughty, Alberta Pensions Administration Corporation

plan administrator
Alberta Pensions Administration Corporation

fund management
Alberta Investment Management Corporation

investment consultant
Hewitt Associates

actuary
Hewitt Associates

auditor
Auditor General of Alberta

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Website: www.sfpp.ca

SFPP employers

Seven employers participate in the SFPP. They are the Police Services of:

The City of Calgary

The City of Camrose

The City of Edmonton

The Town of Lacombe

The City of Lethbridge

The City of Medicine Hat

The Town of Taber